

Economic Statement and Budget Update



Overview

October 18, 2000



Canada

Introduction

Canada enters the 21st century with greater resources and more choices than it has had in decades. The choices we make will mirror our values as a society and our obligations to each other as citizens.

The federal government has been following a plan to restore the nation's finances, invest in key social areas, build a modern, innovative economy, and improve the quality of life for all Canadians.

The plan is paying off.

The deficit is eliminated, the debt burden is falling, unemployment is low and after-tax income is increasing.

With a strong economy and budgetary surpluses, the Government has been able to cut taxes and invest in Canadians' key priorities of health and education.

This Economic Statement sets out the next steps in the four-part plan to ensure better lives for Canadians.

The Government's Four-Part Plan

It invests in the social fabric of this country, particularly in health care and other areas that reflect the responsibility Canadians feel to one another, by:

- delivering the \$21.1 billion in federal funding to strengthen Canada's treasured system of universal health care as agreed to by the Prime Minister and premiers in September;
- providing \$2.2 billion to the provinces and territories for services for the youngest of our children; and
- committing, in conjunction with Budget 2000, over \$1.2 billion to a cleaner, healthier environment.

It strengthens education, research and innovation, the surest paths to success in a knowledge economy, by:

- providing \$500 million in new funding to the Canada Foundation for Innovation to help create world-class universities and research facilities, and for international research;
- adding \$100 million over five years to support research for the knowledge economy; and

- doubling the education amount that post-secondary students can claim to help them offset the cost of books, lodging and other expenses. This measure alone will provide about \$1 billion to 1 million students over the next five years.

It enhances our commitment to debt reduction by:

- paying down at least \$10 billion in debt this fiscal year alone;
- committing to announce each fall an amount for that year's debt paydown in addition to the \$3-billion Contingency Reserve – depending upon the economic circumstances of the day; and
- lowering Canada's debt-to-GDP ratio – the debt in relation to the size of the overall economy – which should fall to about 40 per cent within five years.

It reduces taxes faster and further than set out in Budget 2000 because Canadians deserve to keep more of what they earn, by:

- providing substantial immediate tax reductions that grow over time;
- providing one-time relief for heating expenses to help low- and modest-income Canadians;
- lowering personal income tax rates for all Canadians effective January 2001, in less than two and a half months; and
- reducing Canadians' average personal income tax burden 21 per cent as a result of measures in Budget 2000 and this Statement. For families with children, it will be even lower – 27 per cent.

In total, the tax measures in this Statement, combined with those in Budget 2000, will provide \$100 billion of cumulative tax relief by 2004-05.

A Strong Economy

Canada is in the midst of a period of very strong economic performance.

In fact, the second quarter of 2000 marked the 20th consecutive quarter of growth – the longest uninterrupted economic expansion in more than three decades.

This growth has created close to 1.5 million new jobs in the past four years, of which 9 out of 10 have been full-time.

In the last 12 months, the Canadian economy has created more than 360,000 new jobs. The unemployment rate has fallen to 6.8 per cent, approaching its lowest level in 24 years.

As a result, for the third year in a row, Canada has the best job creation performance of any Group of Seven country.

Sound Financial Management

Canada is in a period of budgetary surpluses.

For the first time in half a century, the federal government has recorded three consecutive surpluses:

- \$3.5 billion in 1997-1998;
- \$2.9 billion in 1998-1999; and
- \$12.3 billion, the largest in our history, in 1999-2000.

All of these surpluses have been used to pay down the national debt. As a result, the debt has declined by \$18.7 billion.

Based on the average private sector forecasts, and after adjusting for the Contingency Reserve, economic prudence, the agreements on health renewal and early childhood development, and employment insurance changes, the surplus for planning purposes is:

- \$12.2 billion for 2000-2001;
- \$10.9 billion for 2001-2002;
- \$11.5 billion for 2002-2003;
- \$11.3 billion for 2003-2004;
- \$7.0 billion for 2004-2005; and
- \$10.7 billion for 2005-2006,

or an average of \$10.6 billion per year.

Paying Down the Debt

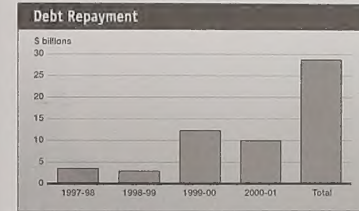
With this Statement, the Government is adding an important new element to its Debt Repayment Plan.

It will continue to annually set aside \$3 billion as a Contingency Reserve. But from now on, each fall it will announce whether more of that year's surplus should be dedicated to debt paydown, depending on the economic and fiscal circumstances at the time.

The Government is committing in this Economic Statement to pay down at least \$10 billion of debt for fiscal year 2000-2001. Just as individual Canadians pay down their credit cards when times are better, governments must do the same.

That will bring the total debt paydown over the last four years to \$28.7 billion; about \$1.7 billion annually, which otherwise would have gone to pay interest on the debt, can be used for Canadians' highest priorities, such as health care, education and lower taxes.

The Debt Repayment Plan and sustained economic growth will ensure that the debt-to-GDP ratio continues to fall rapidly. From a post-war peak of 71.2 per cent in 1995-96, the debt-to-GDP ratio dropped to 58.9 per cent in 1999-2000, and should fall to about 40 per cent by 2005-2006.



Investing in Canada's Social Fabric

Universal health care and quality education are Canadians' highest priorities.

That is why the Government has committed \$23.4 billion – one of the largest single investments by any Canadian government – to improving health care and increasing support for early childhood development.

Of the \$23.4-billion funding commitment:

- \$21.1 billion over five years will be added to the Canada Health and Social Transfer (CHST) so that provinces and territories can enhance funding for health, post-secondary education and social assistance and services.
- Of this, \$2.2 billion is provided to support early childhood development so children enter school ready and able to learn.
- \$1 billion will be provided to provinces and territories for the purchase of modern diagnostic and treatment equipment like MRI machines and CAT scanners.
- \$500 million will be provided to develop modern information technology in the health care sector.
- \$800 million will be dedicated to speeding up access to the most recent innovations in the front line services provided by family physicians.

In addition, all governments have made a commitment to account to Canadians for the way their tax dollars are being spent in the health care system.

These new federal funding commitments build on the \$14-billion increase to the CHST already announced in the 1999 and 2000 budgets.

Reducing Taxes for Canadians

In setting out a five-year, \$58-billion tax relief plan in last February's budget, the Government said it would go further and faster as resources permit.

With the strong growth of the economy and the resulting fiscal surpluses, the Government is now in a position to deliver on that promise.

The tax measures in this Economic Statement, combined with those in the 2000 budget, will provide \$100 billion of cumulative tax relief by 2004-05. And Canadians' average personal income tax burden will be 21 per cent less, and even lower for families with children – 27 per cent.

Not only are the tax measures in this Statement delivered much faster than outlined in the last budget, they also go further. All personal income tax rates will be lowered effective January 1, 2001.

That means, in less than two and a half months:

- The 17-per-cent rate will be reduced to 16 per cent.
- The 24-per-cent middle tax rate – reduced from 26 per cent in July 2000 – will be reduced further to 22 per cent.
- The 29-per-cent top tax rate will be reduced to 26 per cent on incomes between about \$60,000 and \$100,000.
- The deficit-reduction surtax will be eliminated.

Other measures that provide additional assistance for those who need it most are:

- Effective July 2001, the Canada Child Tax Benefit for low- and middle-income Canadians will be raised, with maximum benefits for the first child rising to more than \$2,500 in less than four years.
- Effective January 2001, the disability tax credit amount will be raised to \$6,000 from \$4,293.
- Effective January 2001, credit amounts for caregivers of dependent relatives who are elderly, infirm or disabled will be raised to \$3,500 from \$2,386.

One-Time Relief for Heating Expenses

The Government is concerned about the impact of rising energy prices on home-heating costs. Accordingly, in early 2001, it will provide one-time relief for heating expenses to help low- and modest-income Canadians. This relief will be \$125 per individual or \$250 per family. The total cost of this measure will be \$1.3 billion.

Combined with measures in Budget 2000, including the restoration of full indexation of the personal income tax system to protect taxpayers against inflation, the tax cuts in the Economic Statement provide substantial immediate tax reductions that will grow over time.

Here are some examples:

- A two-earner family of four has a combined income of \$60,000. Last year, they paid about \$5,700 in federal income tax. Next year, their taxes will fall by over \$1,000 – a first-year tax cut of 18 per cent. In less than four years, their taxes will fall by 34 per cent.
- A single mother with one child earns \$25,000 a year. Last year, she received a net benefit of over \$1,400. Next year, she will receive an additional \$800, for a total benefit of \$2,200.
- A one-earner family with two children makes \$40,000. Last year, they paid about \$3,325 in federal tax. Next year, they will pay about \$1,100 less – a reduction of 32 per cent. In less than four years, this family will see their taxes fall by 59 per cent.
- A single father with one child earns \$33,000 a year. Last year, he paid about \$900 in federal taxes. Next year, he will pay no net federal tax whatsoever.

Tax Relief to Encourage Entrepreneurship, Jobs and Growth

Building on measures in the last budget, the new tax package in this Economic Statement proposes a number of tax initiatives to encourage entrepreneurship and innovation.

Effective today:

- the capital gains inclusion rate will be cut further from two-thirds to one-half; and
- tax-free rollovers will be expanded and made available to more businesses. The size of eligible investment will be increased to \$2 million from \$500,000 and the size of small businesses eligible for the rollover will be increased to \$50 million from \$10 million.

To encourage jobs and growth and keep Canadian firms competitive:

- a legislated timetable will be provided for accelerating corporate income tax cuts from 28 per cent to 21 per cent, with a one-point reduction in 2001 followed by a two-point cut in each of the following three years; and
- effective January 1, 2001, self-employed individuals will be allowed to deduct the portion of Canada Pension Plan and Quebec Pension Plan contributions that represents the employer's share.

Strengthening Education, Research and Innovation

Investing in education, research and innovation is the most significant investment Canadians can make to foster success in the new economy.

Building on the investments announced in the 2000 budget, this Economic Statement proposes to:

- help post-secondary students cope with the rising costs of education by doubling the amount on which the education credit is based to \$400 a month from \$200 for full-time students, and to \$120 from \$60 for part-time students;
- help create world-class research facilities in universities and hospitals by providing \$400 million of new funding to the Canada Foundation for Innovation (CFI) for operating costs of research;
- provide an additional \$100 million to the CFI to support the participation of Canadian researchers in major international research projects;
- authorize the CFI to use \$100 million of funds provided in Budget 2000 to support 100 per cent of the capital costs in Canada for collaborative research projects between Canadian universities and leading facilities in other countries; and
- provide a special allocation of \$100 million over five years to the Social Sciences and Humanities Research Council to support research on the knowledge economy including management skills, educational requirements and lifelong learning.

In addition, the CFI is allocating \$250 million of funds provided in Budget 2000 for infrastructure awards to Canada Research Chairs, with no matching funding requirement for Chairs at smaller universities.

Investing in a Clean Environment

Protecting and improving our environment is a major priority of the Government.

This Economic Statement provides an investment of \$500 million to fund the Government's recent commitment to address key environmental challenges, such as climate change and air pollution.

Together with the \$700 million for new environmental initiatives announced in the last budget, the Government's total investment in environmental measures this year is \$1.2 billion.

Summary

Since coming to office, the Government has been committed to sound economic and financial management.

This enabled it to eliminate a \$42-billion deficit in just four years and begin paying down Canada's debt, and has been a major factor in allowing the Canadian economy to grow beyond private sector forecast expectations.

From the time the Government balanced the books in 1997-98, and including the measures in this Economic Statement, close to three-quarters of all new spending has been devoted to health care, children and education.

By the end of 2000-01, it will have paid down \$28.7 billion in debt.

Taken together, the Government's tax measures since the elimination of the deficit will reduce average personal income taxes for Canadians by 27 per cent. For families with children, the tax reduction will be substantially greater – 35 per cent.

How Can I Get More Information on the Economic Statement and Budget Update?

Information is available on the Internet at <http://www.fin.gc.ca/>

You can also obtain copies of this brochure and the Economic Statement from the

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